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SUBJECT: FOREIGN OPERATORS AND PRIVATIZATION INCREASE COMPETITION IN
ICT SECTOR, SAG STILL FAVORS PARASTATALS

REF: A. 09 STATE 2164

[1B.](#) 08 PRETORIA 1278

[1C.](#) 09 PRETORIA 249

[1D.](#) 09 PRETORIA 1033

[1E.](#) 09 PRETORIA 2194

SUMMARY

[11.](#) (SBU) Neotel executives briefed Ambassador Gips on the creation of the second fixed-line operator on October 27. Neotel began operations in 2005 and is working with new undersea fiber-optic cable companies to boost broadband capacity in the region. Neotel executives outlined impending changes in the South African Information and Communication Technology (ICT) regulatory environment under the Zuma administration. The SAG will have to consider providing incentives to private operators to improve rural network coverage and service delivery. Separately, Econoff attended Neotel's second Telecommunications Academy graduation on October 30. Neotel hopes to expand the number of trainees it can accommodate at its academy and is pursuing partnerships to secure employment opportunities for its graduates. The pace of liberalization in the ICT sector and the entry of new foreign operators and undersea cable projects has begun to improve ICT capacity in South Africa. The propagation of parastatal entities under the Mbeki administration did not improve service quality or delivery, but industry analysts do not expect the SAG to abandon state champions such as Telkom or Broadband Infraco. End Summary.

NEOTEL BRINGS COMPETITION
TO TELKOM'S MONOPOLY

[12.](#) (SBU) Neotel Chief Technology Officer Dr. Angus Hays and Head of Regulatory Affairs Dr. Tracy Cohen briefed Ambassador Gips on the creation of the second fixed-line operator on October 27. Neotel began operations in December 2005, after lengthy delays in South Africa's implementation of liberalization policies outlined in the Telecommunications Act of 1996. Neotel's original shareholders included state-controlled power utility Eskom (15 percent) and state-controlled transport logistics group Transnet (15 percent). Neotel began building its network from Eskom and Transnet's existing fiber connections. Dr. Angus Hay explained that Neotel is currently the only operator in the sector not to have direct SAG ownership.

[13.](#) (SBU) In January 2009, the SAG approved the sale of existing Eskom and Transnet share's to Neotel's parent corporation, India-based Tata Communications. This decision allowed Tata to gain a controlling share (56 percent) of Neotel. According to Hays, Tata

considers South Africa as its second home market after India. Black Economic Empowerment (BEE) partners hold 19 percent of shares; some are well connected politically. The remaining shares are held by private consortiums.

¶4. (SBU) Neotel is expanding its network and has focused on building its business around larger commercial customers. Neotel also has plans to bring fiber connections directly to consumers' homes. Neotel was a facilitator for the SEACOM undersea fiber-optic cable when other South African companies would not support a private cable project (Ref B). Neotel worked with SEACOM to extend the fiber connection from the landing site in KwaZulu-Natal Province to the country's industrial hub in Gauteng Province. Hays explained that the threat of piracy on the Gulf of Eden and some political interventions delayed the launch of SEACOM by a few months. Hays commented that it was politically expedient to blame piracy concerns for all of the delays. The piracy threat has also affected the other pending undersea cable projects. The projects have had to depend on patrol/escort support from the U.S. and French navies since the main suppliers are French-American company Alcatel-Lucent and U.S.-based Tyco Telecommunications.

¶5. (SBU) Dr. Hays said Neotel's comparative advantage includes its ability to tap into Tata's existing global network, including the SAFE/SAT-3 satellite network. Neotel is also promoting the development of other undersea cable projects including EASSY (East Africa) and WACS (West Africa), which are expected to further boost bandwidth capacity in Africa. According to Hays, EASSY is expected to begin operations in mid 2010.

¶6. (SBU) Neotel is also working with existing mobile operators MTN and Vodacom to boost network capacity around the major metro

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centers. They are collaborating to build 5,000 km of additional fiber capacity and there is some tower sharing among the three. Neotel has also considered acquiring mobile operator Cell C, but Hays indicated that the "debt on Cell C is too high to consider it viable unless there was a fire sale."

LEADERSHIP CHANGES
EXPECTED AT ICASA

¶7. (SBU) Dr. Cohen, a former Independent Communications Authority of South Africa (ICASA) Councilor, explained that ICASA was developed with some USAID and Canadian Aid assistance. Therefore, it is partially based on the U.S. Federal Communications Commission and Canadian regulatory models. ICASA has approximately 300 staff including its regional divisions. ICASA councilors serve staggered four-year terms. ICASA's CEO is appointed for a five-year term. The Minister of Communications makes the appointment based on Parliamentary advice. However, independence constraints and interventions from the Department of Communication (DOC) impeded ICASA's decision-making processes in the past (Ref C).

¶8. (SBU) Neotel executives said ICASA's leadership structure would change drastically in the next year. Last minute labor and ICASA interventions (Ref D) in the Vodaom-Telkom dissolution made ICASA look bad. Major executive changes were expected to deal with the resulting public backlash. Dr. Cohen said there is strong indication that the next ICASA CEO would not be a political appointee, but someone with technical expertise in the sector. She expected this to offset the lack of technical expertise possessed by the current Minister of Communications General Siphiwe Nyanda. In Cohen's view, the current ICASA CEO Paris Mashile, a political appointee, became difficult for the SAG to control.

¶9. (SBU) Dr. Cohen welcomed U.S. technical assistance in the sector and said ICASA would benefit particularly from technical assistance on spectrum management. She explained that the Parliamentary Portfolio Committee on Communications is extremely receptive to technical assistance and has been active in improving the

legislative and regulatory climate. She suggested that the USG should consider working with Parliamentary Portfolio Committee's Chairperson Ismail Vadi to promote liberalization and improve technical capacity in the sector.

POLICY BOTTLENECKS STILL
THWART COMPETITION

¶10. (SBU) Dr. Cohen noted that the DOC is also trying to "claw back some power" from ICASA on regulatory issues. In the past, ICASA has been criticized for pursuing lengthy market studies that have slowed down decision making on ICT regulatory issues. In the current economic climate, Neotel executives expected less appetite for additional process-oriented decision-making. Instead, they expected Ministerial edicts on issues such as rate determinations for interconnection and call-termination fees.

¶11. (SBU) Neotel executives also emphasized that the SAG would continue to protect government-controlled entities such as Telkom, despite allowing foreign operators limited access into the sector in the last few years. Telkom is the country's flagship ICT company and the DOC has direct influence over its CEO. They cited continued SAG support for state-owned signal carrier Sentech as another example. Sentech was designed to be the SAG's wireless operator, and takes up a large share of scarce spectrum capacity (50 megahertz) without producing much results. General Nyanda wants to continue supporting Sentech because it reports directly to the DOC. Similarly, the parastatal company Broadband Infraco, created to develop undersea broadband cable capacity, was slated to be incorporated into the second fixed-line operator once Neotel was licensed. However, that did not occur because of tensions between the DOC and the Department of Public Enterprises (DPE). DPE has some oversight on parastatal entities (Ref A), and tensions continue to rise over control of Broadband Infraco.

RURAL COVERAGE
STILL INADEQUATE

¶12. (SBU) Dr. Hays explained that South African operators have

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traditionally focused their network development strategies on urban areas due to commercial viability issues. The challenge for the SAG and operators is to extend network service to rural areas. Dr. Hays noted the critical need to find a viable model to promote rural network rollouts, which are required to improve service delivery. He explained that the SAG has avoided the use of incentives, but emphasized that financial incentives are required to encourage network development in rural areas that would be unprofitable initially. A SAG-controlled entity, the Universal Service and Access Agency (USAA), was launched in 2002 to address country-wide access constraints, but policy bottlenecks have rendered it ineffective (Ref A).

¶13. (SBU) A digital dividend is expected from the impending digital migration. Dr. Hays said 80-100 megahertz of spectrum would be freed up from the digital migration and could be put to good use to improve rural coverage if there is political will. The SAG originally announced the digital migration process to be completed by November 2011, but Neotel executives thought that late 2012 was a more realistic timeframe. The DOC recently released a new policy spectrum allocation, which Neotel executives described as weak on specifics.

NEOTEL ACADEMY ADDRESSES
SKILLS SHORTAGE

¶14. (SBU) ICT Officer attended Neotel's second Telecommunications Academy graduation on October 30. Neotel launched the academy in

2007 with 10 students as a pilot program. The full academy was launched in March 2008 with 27 students enrolled. Neotel CEO Ajay Pandey described the initiative as an effort to "build a gene pool of local ICT expertise." Neotel worked with the SAG's Information Systems, Electronics, and Telecommunication Technologies Sector Education Training Authority (ISETT-SETA) and international ICT companies such as U.S.-based Cisco to develop the curriculum for the academy and offer post-training employment opportunities. Pandey and the Deputy Minister of Communications emphasized the need to build R&D capacity within South Africa. The Neotel Academy was cited as a potential first step to encourage trainees to pursue additional graduate and post-graduate studies in this sector. Increasing PhD-level expertise within South Africa was cited as a requirement to remain globally competitive.

¶15. (SBU) Neotel recruits trainees from historically underprivileged backgrounds, and the trainees receive stipends for living expenses during the program. Seventeen trainees successfully completed the program this year. The one-year training program builds on basic engineering qualifications. This year's trainees spent time at Tata's operations in India to increase their global exposure. Tata has also extended an offer to receive future trainees at its other global operations. China-based Huawei has also offered employment opportunities to the graduates. Pandey noted that he would pursue further corporate partnerships to secure employment opportunities for future graduates and also welcomes support from donor countries to expand the number of trainees it can accommodate.

COMMENTS

¶16. (SBU) The pace of liberalization in the ICT sector and the entry of new foreign operators and undersea cable projects has begun to improve ICT capacity in South Africa. Broadband capacity and costs have improved in the last year, but are not yet meeting global standards. Increased capacity in the sector will help SAG meet some of its commitments to FIFA for the 2010 World Cup and boost economic development as more medium and small businesses can begin launching e-commerce services. Companies such as Neotel, Cisco, and Microsoft have developed programs and academies to improve local skills development, but these are still small-scale projects. ICT network coverage in rural and historically disadvantaged areas also needs improvements. The SAG will have to consider providing incentives to private operators to improve rural coverage and service delivery. The propagation of parastatal entities under the previous administration has not improved service quality or delivery in the sector, but industry analysts do not expect the SAG to abandon state champions such as Telkom or Broadband Infraco. End Comment.

Gips